



Risk Assessment 101

Lisanne Sison| January 18, 2019

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Session Agenda

Overview

- Role of Risk Assessment in ERM
- Risk Assessment Definitions / Approach
- Common Risk Assessment Pitfalls
- Risk Assessment Best Practices
- Leveraging the Risk Assessment to drive value and enhance risk awareness



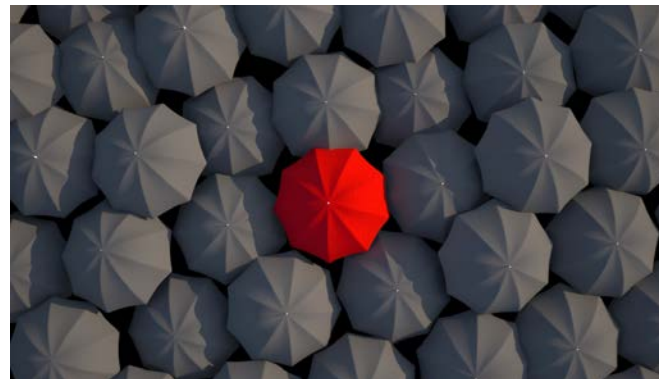
Role of Risk Assessment in ERM

- Identify risks for the organization
- Track how risks evolve over time
- Improve risk awareness
- Provide a common ruler to measure risks consistently

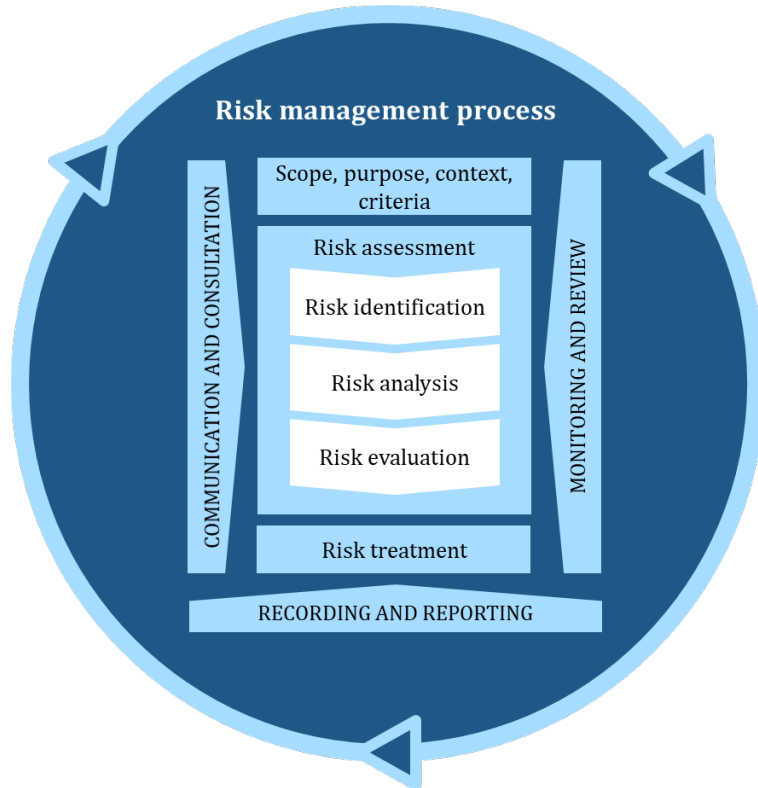


How is an ERM Risk Assessment Different?

- Common toolkit
- Common lexicon
- Common risk criteria
- Aligned with strategy and objectives

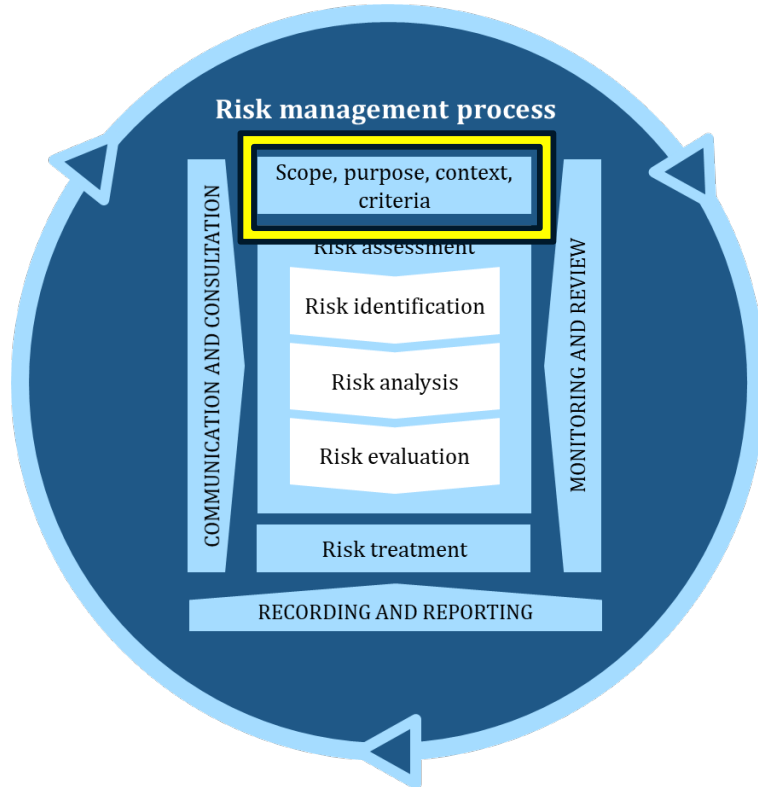


What is Risk Assessment?



- **Risk Identification** answers the question:
 - What are the uncertainties that could impact the achievement of objectives? (both opportunities and consequence)
- **Risk Analysis** answers the question:
 - How likely is the risk to occur?
 - If it occurs, how significant could the impact on our objectives be?
- **Risk Evaluation** answers the question:
 - Given the risks and the overall analysis, which ones do we need to focus on and treat?

Establish Guardrails



› Scope / Purpose

- › What is the purpose / focus of the risk assessment?

› Context

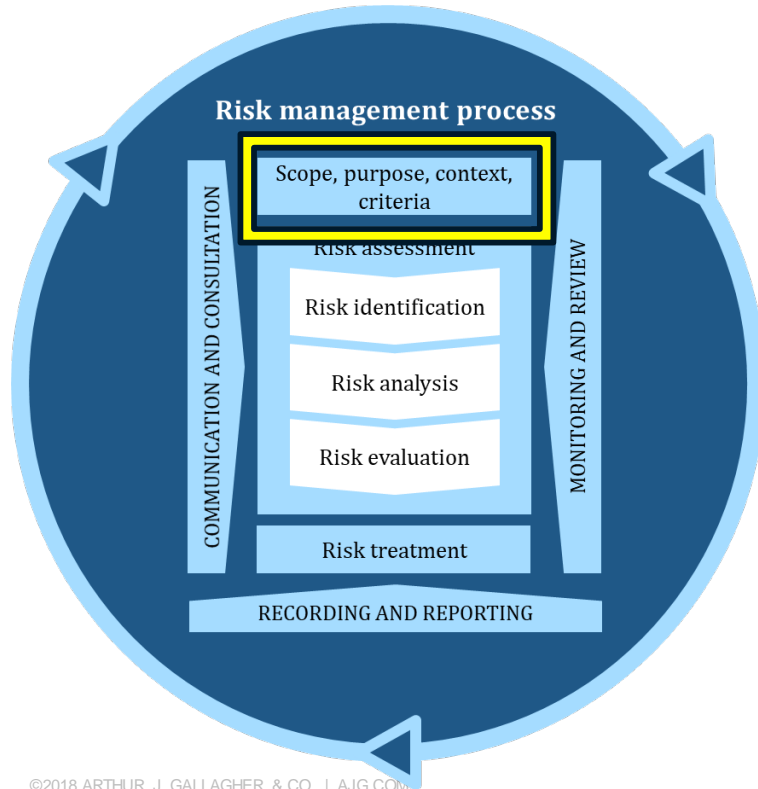
- › What are the internal and external factors that need to be considered as part of the assessment?

› Criteria

- › What is the ruler that will be used to measure risks?

Establish the Context

Scope / Purpose



> Scope

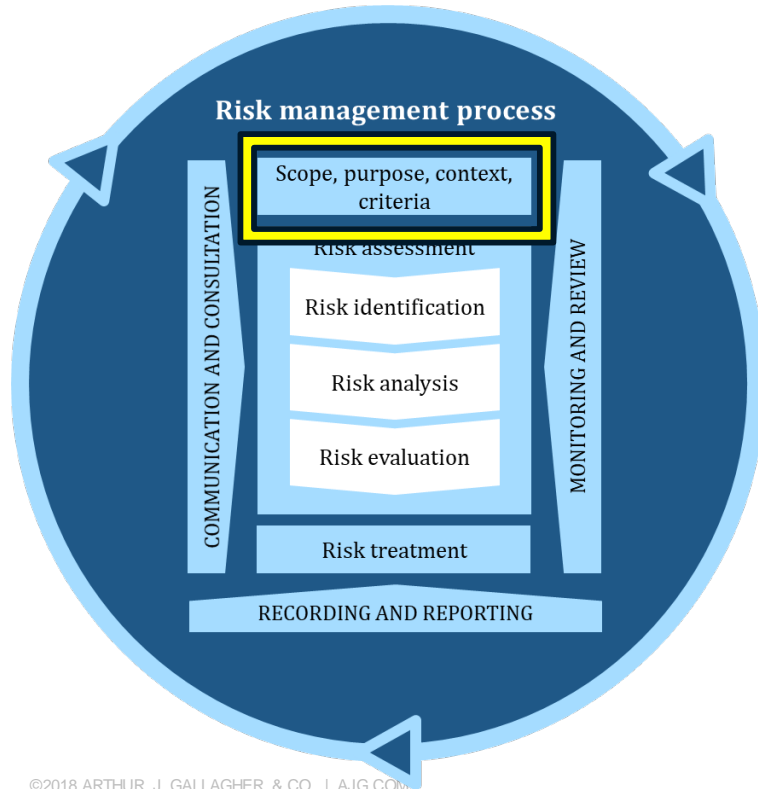
- > Department
- > Project
- > Organization-wide?

> Purpose

- > Make a decision
- > Adapt to a new environment
- > Performance improvement

Establish the Context

Context



› External Context

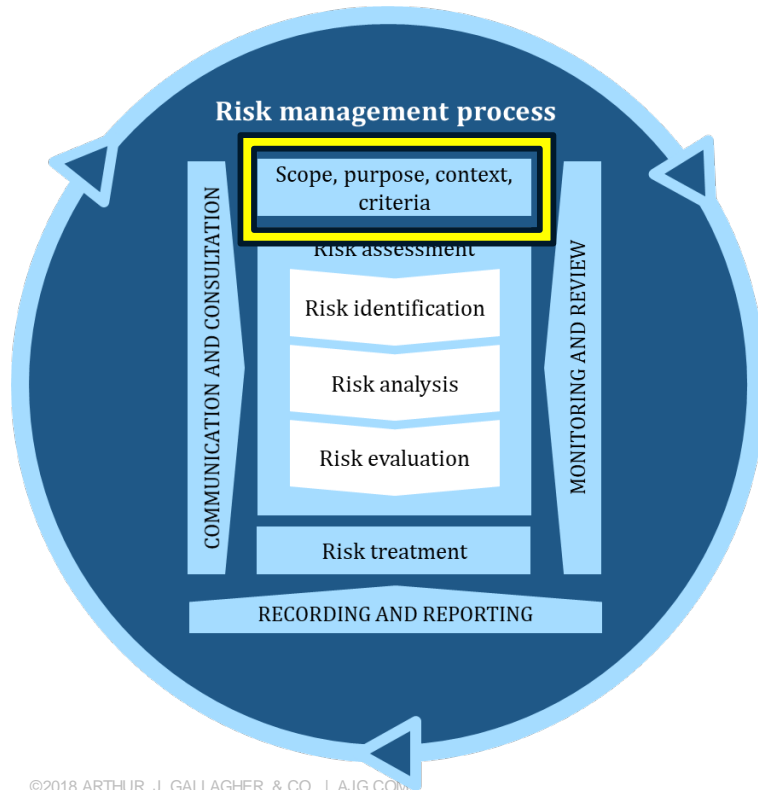
- › Social, cultural, political, legal, regulatory, financial, economic, natural and competitive environment

› Internal Context

- › Governance, organizational structure, capabilities and resources, IT capabilities, culture, and policies / objectives / strategy

Establish the Context

Context Example



➤ Example

- Good relationships with local, state and regional partners
- Complex regulatory environment
- New budget planning process
- Aging infrastructure
- New IT Systems
- Culture is positive, but very deadline driven
- New SMS regulation on horizon

Criteria

Likelihood

Rating	Description	% of Time	Rate of Occurrence
5 Certain or Almost Certain	HIGH - Almost certain to occur, expected in most circumstances	>75%	Daily - Weekly
4 Likely	MEDIUM HIGH - Likely to occur or will probably occur	Up to 75%	Monthly
3 Possible	MEDIUM - Possible, this could occur	Up to 50%	Once or twice a year
2 Unlikely	MEDIUM LOW - Unlikely, not expected to occur	Up to 30%	Every 2-5 years
1 Rare or Remote	LOW - Rare, would occur only under exceptional circumstances	10% or lower	10 years or more

Criteria

Impact / Consequence

Rating	Service disruption, affect upon funds or processes	Reputation	Failure to Meet Legal Obligations	People
5 Extreme	Total failure of service, extremely expensive \$\$\$\$	National publicity >3 days, resignations	Multiple civil & criminal suits. Claim or fine above \$5m	Fatality of 1+ employees or citizens
4 Very High	Serious disruption to service, high cost \$\$\$	National public or press interest	Litigation, claim or fine of \$500k-5m	Serious injury or disability of 1+ people
3 Medium	Disruption to service, will cost \$\$	Local public and press interest	Litigation, claim or fine of \$100k-500k	Major injury to people
2 Low	Some minor impact on service, minor \$ impact	Contained within department but known by entity	Litigation, claim or fine of \$10k-100k	Minor injuries to people
1 Negligible	Annoyance, small or no \$ impact	Contained within the department	Litigation, claim or fine of <\$10k	Minor injury to individual

Criteria

Opportunities*



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Rating	Effect Upon Operations	Reputation	Ability to Achieve Goals / Objectives	Effect Upon People
5	Very high \$\$\$\$ impact, great improvements to services and processes	National public and press interest; very positive impact on reputation	Regarded as the "model" for this activity and ability to achieve goals	All or most stakeholders positively affected
4	Medium to High \$\$\$ impact, services and processes improved	Statewide public or press interest, supports good reputation	Regarded as high achieving; most goals met	Many key stakeholders affected
3	Moderate \$\$ impact, some improvements	Local public and press interest; improves local reputation	Average performer for similar type entities	Would only affect some areas of operation
2	Minor \$ impact, minor improvements	Improvement of internal reputation or morale	Little or no impact upon organizational objectives	One or two departments affected
1	Small or no impact on \$ or services	Affects individual department only	No goals established or achieved	Some individual affected

ERM Heat Map

ABC Company Risk Matrix												
Likelihood	Almost Certain	Pursue	Pursue	Prepare	Actively Monitor	Actively Monitor	High	Very High	Very High	Extreme	Extreme	Almost Certain
	Likely	Pursue	Prepare	Prepare	Actively Monitor	Periodically Review	Medium	High	Very High	Very High	Extreme	Likely
	Possible	Prepare	Prepare	Actively Monitor	Periodically Review	Periodically Review	Medium	Medium	High	Very High	Very High	Possible
	Unlikely	Actively Monitor	Actively Monitor	Periodically Review	Periodically Review	No Action	Low	Medium	Medium	High	Very High	Unlikely
	Very Unlikely	Actively Monitor	Periodically Review	Periodically Review	No Action	No Action	Low	Low	Medium	Medium	High	Very Unlikely
		Huge	Material	Moderate	Minor	Small	Insignificant	Minor	Moderate	Major	Severe	
		Opportunities					Threats					

Risk Rating Approach

› Raw Risk Approach

- › Total Risk Exposure
- › Assumes existing controls are absent
- › Controls later considered to reduce the risk, resulting in a “Raw Risk” and “Residual Risk” Score

› Current State Approach:

- › Assumes current operational activities
- › Existing controls and changes to controls considered separately
- › “As-Is” score and “To-Be” score

Common Risk Assessment Pitfalls

- Too much detail
- Wrong parties involved
- Overly-complicated process
- Inconsistent rating scale
- Ambiguous language
- Rating challenges
- Worst case Vs. Likely case
- Risks with a wide range of potential consequences



Identifying Risks



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- How do I get started identifying risks?
 - Structured interviews
 - Group brainstorming
 - Surveys
 - Industry checklists
 - Any combination of the above

Risk Identification Approaches



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Option 1

Start with structured interviews of senior leaders

Take list to oversight/advisory group for brainstorming

Check revised list against industry checklist

Take back to senior leaders for approval

Risk Identification Approaches

Option 2

Start with industry checklist sent to oversight/advisory group for reference

Brainstorm with oversight/advisory group any deletions/additions/rephrasing from checklist

Conduct structured interviews with department heads on risks where they are the subject matter expert

Present final list to senior leaders for approval

Rating the Risks

- In brainstorming session or by survey
- By department
- By oversight/advisory group
- By senior leaders
- Using survey technology
- Placemat can be helpful in risk ranking sessions
- Makes sure everyone stays on the same page... literally!

Risk Owners



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- Assigned by whom?
- At what level of the organization?
- Who will keep them accountable for drafting and working their risk treatment plans?
- How will they report progress?
- What technology will we give them?
- How will we train them?

Risk Owners cont'd



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- Select a person with the 3 A's
 - Authority
 - Accountability
 - Ability
- Established communication and reporting
 - Scheduled reporting to ERM Committee
 - Regular cadence of evaluating risks
 - Risk Owner Understudy

Communication

- Predictable
- Consistent
- Ongoing
- Constructive



Ongoing Monitoring



- Need to connect identified risks with action
- Information feeds accountability
- Should advise future risk assessments

- ✓ Provides information required to make risk informed decisions
- ✓ Improved collaboration helps avoid unintended consequences and rework
- ✓ Enhances risk intelligence and decision making

Closing



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- Step by Step
 - Set the scope/purpose/context/criteria
 - Use a collaborative approach to identify and evaluate risks
 - Think about both consequences and opportunities
 - Communicate! Communicate! Communicate!
- Best Practices
 - Keep it simple
 - Keep it going
 - Follow through on risk identification through mitigating actions

SUMMARY



Questions?



Thank you!

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